

# SUMMARY ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Cunneen Analyst: Jeani Brent Bill Number: AB 68

Related Bills: See Prior Analysis Telephone: 845-3410 Amended Date: 04/29/1999

Attorney: Pat Kusiak Sponsor:

**SUBJECT:** Research Expenses Credit/Increase to 13% of Excess Expenses/Minimum Base Not Less Than 35%

- ☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced December 7, 1998.
- ☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- ☐ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.
- ☐ FURTHER AMENDMENTS NECESSARY.
- ☒ DEPARTMENT POSITION CHANGED TO Support.
- ☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED December 7, 1998 STILL APPLIES.
- ☒ OTHER - See comments below.

### SUMMARY OF BILL

Under the Personal Income Tax Law and the Bank and Corporation Tax Law, this bill would increase the state credit for "qualified research expenses" from 11% to 13% and would decrease the minimum threshold for the taxpayer's base amount in computing the research expenses credit from not less than 50% to not less than 35% of the taxpayer's current year qualified research expenditures.

### SUMMARY OF AMENDMENT

The April 29, 1999, amendments corrected a typographical error by changing 13% to 35%.

The April 21, 1999, amendments accepted the technical amendments proposed in the department's analysis of the bill as introduced December 7, 1998. In addition, the amendments did the following:

1. Reduced the size of the increase in the qualified research expenses credit from 15% to 13%.
2. Changed the decrease in the minimum base requirement from 20% to 35%.
3. Added a change that would decrease the state credit for basic research conducted by universities from 24% to 20%.
4. Added a requirement for the Legislative Research Bureau to report to the Legislature on the economic impact of the research credit by January 31, 2000.

Except for the above discussion, the technical considerations, the revenue estimate and Board position, the department's analysis of the bill as introduced December 7, 1998, still applies.

### Board Position:

<input checked="" type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input type="checkbox"/> PENDING

Department/Legislative Director Date

**Johnnie Lou Rosas** **5/13/1999**

TAX REVENUE ESTIMATE

The revenue impact of this bill is estimated to be revenue losses as shown below:

Revenue Impact of AB 68 Effective for years beginning on or after 1/1/99 Assumed enactment after 6/30/99 Losses in \$ Millions			
1999/00 -\$15	2000/01 -\$25	2001/02 -\$25	2002/03 -\$30

This estimate does not account for changes in employment, personal income, or gross state product that could result from this measure.

REVENUE ESTIMATE DISCUSSION

This revenue estimate differs from the previous estimate to reflect changes that the April 21 amendments made to the percentages for the qualified research expenses credit, the minimum base requirement, and the basic research credit. The revenue estimate decreased from a loss of \$30 million to \$15 million in 1999/00, and from \$50 million to \$25 million in 2000/01 and 2001/02.

The revenue impact of this bill is estimated in the following manner. The research credits generated under current and proposed law were simulated for each corporation for the 1992 tax year based on a sample of 50 corporations with large research and development expenses. The simulation took into account the taxpayers' income, historical research expenditures, and detailed tax and financial data. The results were weighted statistically to the population level. The revenue losses were estimated as the differences between the taxes under the current and proposed law. The revenue losses for 1992 were extrapolated to the 1999/00 and later fiscal years using projected growth rates of business profit provided by the Department of Finance.

BOARD POSITION

Support.

At its March 23, 1999, meeting the Franchise Tax Board voted 2-0 to support this bill as introduced December 7, 1998. The Board has not had an opportunity to review the April amendments.